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TAGS: [BEXP](#) [ENRG](#) [IZ](#) [KU](#) [KUWAIT](#) [IRAQ](#) [RELATIONS](#)

SUBJECT: COUSINS' CONSORTIA VIE FOR IRAQ POWER DEAL

REF: A. BAGHDAD 1685

[B](#). CARRIG/ORFE VOCO 24APR05

[C](#). ORFE/CARRIG EMAIL 11APR05

[D](#). 2004 KUWAIT 1303

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[1](#)1. (SBU) Summary and Comment. Two wings of the influential Al-Ghanim clan are competing for the sale of electrical power to Iraq. Kutayba Al-Ghanim and Fouad Al-Ghanim recently presented similar, Kuwait-based BOT proposals to a visiting Iraqi negotiating team. The two consortia offer 7-10 year contract terms on the provision of up to 1000 MW of electrical power with 600 MW to be online within two years. Both camps would grant substantial discounts on price were Iraq to provide natural gas to fire their gas turbine systems. Price ranges from 2.65 cents/KWh to 5.99 cents/KWh depending the contractor, the fuel used and the degree of infrastructure support required. Both consortia assert an inside track on the purchase of "surplus" Kuwait electricity to meet Iraq's needs in advance of a BOT system startup. GOK officials, however, insist little surplus exists given Kuwait's own aging power generation system and increasing domestic demand. GOK sources are also pessimistic regarding the near-term availability of Iraq natural gas to fuel Kuwait-based private sector power projects.

[1](#)2. (SBU) Comment. Embassy Kuwait concurs with Embassy Baghdad's Ref A call for greater Kuwait-Iraq economic dialogue on issues of common interest, to include debt reconciliation, asset recovery, development and energy. We will encourage our GOK interlocutors to make available for Iraq whatever state-generated power surplus that may exist and to facilitate private sector power sales as well. Embassy Baghdad may want to consider enlisting ITG support for the export to Kuwait of Iraq natural gas. End Summary and Comment.

The Consortia Lineup

[1](#)3. (U) Business managers from two wings of the influential Kuwaiti Al-Ghanim clan are competing on a contract for the sale of electrical power to Iraq. Recently, they met in Kuwait City with a six-member Iraq Ministry of Electricity delegation (listed at para 20) for continued contract negotiations. These meetings follow on earlier sessions in Kuwait over the past 18 months and in Amman, Jordan in March and April of this year.

[1](#)4. (U) International Power Corporation (IPC) - Kutayba Al-Ghanim (CEO of Al-Amara Investment Company) and his brother Bassam Al-Ghanim (Chairman of Gulf Bank) fielded a negotiating team headed by Bader Fahed Al-Rezaihan (President and CEO of CIC Group, Inc. and Chairman of IPC, which is based in the British Virgin Islands). Khaled Faisal Al-Mutawa, General Manager of Gulf Bank, backstopped Al-Rezaihan.

[1](#)5. (U) US-based JHS Associates and Partners (JHS) - Fouad Al-Ghanim (CEO of Alghanim International General Trading and Contracting Company (AIGT&CC)) and his brothers Ali Al-Ghanim (Agent for Dutch Babcock) and Abdullaziz Al-Ghanim (Agent for Siemens/Foster-Wheeler) were represented by Mahmoud Emam Yaseen, CFO for AIGT&CC and Tarek Eissa, Head of Construction for AIGT&CC.

The Proposals - The Consortia Views

[1](#)6. (SBU) IPC's plan, described in part in an updated MOU concluded in Kuwait with the Iraqi delegation on 5 April, calls for a 7-year take-or-pay arrangement with gas turbines providing: in Stage I, 100 MW of power by February 2006; and for Stage II, 600 MW by January 2007. The firm would also install line capacity to carry 400 KV to the Iraqi border. The Iraqi delegation reportedly is asking IPC additionally to cover the cost of all line development (to include hardware and labor procurement/management) within Iraq to carry power to the Khor Az Zubayr terminus some 50 kms to the northeast of the proposed power station in Kuwait. IPC would fire the

turbines with fuel oil pending resolution of a proposed Iraq Ministry of Oil commitment to "guarantee" the delivery of natural gas to Kuwait to power the plant.

17. (SBU) IPC would bill 5.99 cents/KWh for oil-generated electricity, or 4.3 cents/KWh for gas-generated electricity if Iraq provides the natural gas (Note: According to IRMO (Ref B) this elevated price may reflect IPC inexperience with costing power projects). The IPC negotiators assert that GOK has approved their lease of land to base the power station and a right-of-way for the power line towers to carry electricity to Iraq. The firm and its associates have no experience in power generation; this project would be a first for IPC and CIC Group.

18. (SBU) In conversations with EconCouns on 10, 13 and 24 April, JHS Head of Construction Tarek Eissa and Electrical Engineering Department Head Alois Novak presented a similar game plan. JHS sees Iraq as a woefully under-served market with an installed capacity of perhaps 10,000 MW of which 5,500 to 6,000 MW is serviceable in the face of an 8,000 MW demand today. They believe that demand will increase by 1,000 MW annually. AIGT&CC has had solid power generation experience, most recently when they completed -- in team with Siemens -- the Kuwait Al Zour South 1,000 MW power station three months ahead of schedule.

19. (SBU) JHS envisions a two-stage approach to Iraq, having two gas turbines in place by December 2005, generating 100-120 MW of power on land, for which, they say, JHS has construction rights. The JHS Stage II plan calls for 600 MW of installed capacity by April 2006 provided by a total of 6 power units, on a 10-year contract. JHS would offer to pay for the installation of power lines all the way to Iraq's regional distribution center at Khor Az Zubayr, according to Novak and Eissa. They also promote natural gas as the preferred fuel and would ask Iraq to budget \$130-\$180 million to cover gas field development, pipelines and a compressor to move the gas to Kuwait. JHS's prices are contingent on who picks up infrastructure costs. They ask 5.95 cents/KWh for oil- and 2.65 cents/KWh for gas-generated electricity if Iraq provides that fuel free of charge as well as the gas field development, pipelines for delivery of the gas and also the power transmission lines bringing energy back to Iraq. The third option would deliver power at 3.5 cents/KWh if Iraq picks up the tab for gas delivery and JHS assumes responsibility for construction of an electric power substation and delivery lines to Iraq.

#### The Proposals - View from the Government

10. (SBU) Kuwait Ministry of Energy Assistant U/S Hamoud Al-Enezi told EconCouns on 12 April that the two consortia have "an equal chance" for winning the project. He thought that Iraq would need additional power for at least five years and that the governments of Kuwait and Iraq eventually would support the proposal for a Kuwait-based power station. He thought the basic idea good and the companies capable with sound American and Kuwaiti constituents. Al-Enezi thought the biggest problem areas involved negotiations with the two governments rather than any technical or business aspects of the proposed project itself.

11. (SBU) Al-Enezi noted, for example, that although both consortia claim to have reached substantive agreement with the Government of Iraq regarding contract terms, neither of them could produce a finalized power supply agreement as yet. Moreover, he said, both are still waiting "for the green light" from Kuwait's Ministries of Commerce and Energy and from the Municipality for a build-operate-transfer (BOT) arrangement. Specifically, and notwithstanding the firms, claims to have their land permissions already, they need land reportedly to be donated by the Municipality on which to site the power station as well as a final easement for a right-of-way for power line towers to deliver the electricity to Iraq.

12. (SBU) Al-Enezi also noted that the firms would need some source of power during construction as well as a connection to the Kuwait power grid, neither of which is resolved. The biggest problem, he predicted, would be political. He said that any private power arrangement would have to survive harsh scrutiny by the National Assembly. "They will ask," he said, "why this project should go to an Al-Ghanim -- any Al-Ghanim -- rather than the public sector."

#### Surplus Power - Yes and No

13. (U) Both consortia imply a meeting of the minds with the GOK regarding the sale of "surplus" Kuwaiti electricity to Iraq through their good offices. That supply would precede the generated power with the plan being to meet Iraq's marginal demand with excess Kuwaiti power until the new generating station comes on line completely. In a 10 April

meeting with Ambassador, IPC Chief Bader Al-Rezaihan suggested that an informal understanding had been reached with the GOK Ministry of Energy. He said that an SAIC study of Kuwait's power needs - that study commissioned by IPC -- confirmed that a substantial surplus exists, at least for the off-peak winter season. Al-Rezaihan stated that the power was available for his consortium to purchase and provide to Iraq. Similarly, JHS's Engineer Novak claimed in his session with EconCouns that the Al Zour South facility, which AIGT&CC recently completed, ensures excess capacity today.

14. (SBU) These assertions run counter to the Ministry's official and long-standing position that whatever the surplus that may exist, it is transient and not available for sale to Iraq by anyone, to include the GOK itself. Ministry of Energy U/S for Electricity Saud Al-Zaid reiterated this point in a 20 April conversation with EconCouns, recalling their earlier conversation in April 2004 regarding the "surplus" power issue (Ref D). Al-Zaid said the current summer load in Kuwait is 8,500 MW and that although the installed capacity is in the neighborhood 10,000 MW, the actual maximum load is approximately 9,000 MW due to aging facilities. He noted that most Kuwaiti power plants are over 25 years of age and even the newer facilities have boiler limitations.

15. (SBU) Al-Zaid also contradicted Al-Rezaihan's description of the conclusions of the SAIC study. Saud said he had had an opportunity to review the paper but found its methodology and findings "puzzling." He said no one from SAIC had contacted the Ministry in the preparation of the work and that he was unfamiliar with the baseline data SAIC employed in its analysis. He said the approach taken was more "political" and "theoretical" than practical. He said he was amused by an SAIC prediction that one day Kuwait could export "surplus" electrical power to Europe via Turkey.

#### Natural Gas Fuel Source -- Possible But Not Likely

16. (SBU) Similarly, both consortia posit the use of Iraqi natural gas as a lower-cost and more environmentally friendly energy source for the power project. They each speak of having had promising discussions with the Iraqis about this. However, Kuwait Ministry of Energy U/S for Oil Issa Al-Own told EconCouns 20 April that prospects are slim for any early use of Iraqi gas to power a Kuwait-based electricity generation system for Iraq.

17. (SBU) Al-Own said he has been in close contact with his Ministry's Iraqi counterparts regarding a plan to export Iraqi gas to Kuwait for petrochemical development. That plan, according to Al-Own, remains "contingent on the formation of Iraq's ministries and government." He also said he was "unaware of any parallel arrangements," i.e., private electrical power generation plans, regarding exported Iraqi natural gas. Moreover, he said that his Ministry had not yet negotiated a gas price with its interlocutors.

18. (SBU) Under discussion, according to Al-Own, is a two-stage proposal on which Kuwait is prepared to "move forward immediately." Stage I, for which GOK already has approved a \$24 million expenditure, could deliver 38 million cubic feet/day (mcf/d) of natural gas to Kuwait as early as October 2005. Kuwait, Al-Own clarified, is prepared to advance Iraq its \$8 million "share" of production costs for Stage I in addition to covering Kuwait's own two-thirds, \$16 million, of the costs. Stage II of the program would cost an additional \$700 million to deliver a total of 200 mcf/d, with Iraq paying \$300 million and Kuwait \$400 million of the project costs.

19. (U) For Stage II as well, Al-Own envisioned the principal use of the gas to be for Kuwait's petrochemical industry. He allowed that a second 200 mcf/d could be recovered with a proposed Kuwait Foreign Petroleum Exploration Company development of Iraq's Seba field. He said that project "has the economics" for development. Again, however, he cited petrochemical development or electric power generation for Kuwait's own domestic use as the likely first destination for any recovered natural gas.

20. (U) Iraqi delegation for 4/5 April meetings in Kuwait consisted of (Ref C):

Haitham Taha Yaseen  
Advisor, Ministry of Electricity  
George Zayya  
Advisor, Trade Bank of Iraq  
Riya Saeed  
Director General, Ministry of Planning  
Hazim Hade Al-Eed  
Director General, Ministry of Finance  
Amal Aboud Qadouri  
Director General, Office of Economics  
Abed Ali Hameed Al-Meamar  
Director General, Legal Affairs

121. (U) Baghdad minimize considered.

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